

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-03

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CEA-01 PA-01 PRS-01 H-02 /084 W

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R 032119Z SEP 76

FM AMEMBASSY OTTAWA

TO SECSTATE WASHDC 948

LIMITED OFFICIAL USE SECTION 1 OF 2 OTTAWA 3574

E.O. 11652: N/A

TAGS: EFIN, CA

SUBJ: US BANKERS' VIEWS ON GOC WHITE PAPER ON BANKING

LEGISLATION

REF: OTTAWA 3410

1. SUMMARY: IN DISCUSSIONS WITH REPS OF FIVE U.S. BANKS
IN TORONTO, EMBASSY LEARNED U.S. INTERESTS GENERALLY
PLEASSED WITH GOC WHITE PAPER ON BANKING LEGISLATION. FOUR
OF FIVE REPS INDICATED THEIR FIRMS WOULD PROBABLY APPLY
FOR CHARTERED BANK STATUS IF THERE WERE NO UNFORESEEN
HINDRANCES TO FIRM'S PROJECTED OPERATION AS BANK. ALL
EXPECTED VISIT OTTAWA IN NEXT FEW WEEKS TO SEEK CLARIFICATION
OF CERTAIN VAGUE PROPOSALS IN WHITE PAPER, AND ALL
AGREED THAT CITICORP OF N.Y. WOULD PROBABLY HAVE MOST
DIFFICULTY IN CONFORMING TO PROPOSED CHANGES IN BANK ACT.
NONE EXPRESSED INTEREST IN RETAIL BANK OPERATIONS, SAYING
THEY COULD NEVER COMPETE WITH EXISTING CHARTERED BANKING
IN THIS FIELD. END SUMMARY.

2. EMBOFF AND CONGENOFF DISCUSSED ON SEP 1-2 GOC
WHITE PAPER ON BANKING LEGISLATION IN SERIES OF MEETINGS
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WITH FIVE REPRESENTATIVES OF U.S. BANKING INTERESTS AND

WITH CANADIAN SECURITY DEALERS IN TORONTO. U.S. INTERESTS INVOLVED WERE M. M. BUILDERS FUNDS LTD., AFFILIATE OF MARINE MIDLAND BANK; CONTINENTAL ILL. LEASING AND FINANCIAL LTD., AFFILIATE OF CONTINENTAL ILLINOIS NATIONAL BANK AND TRUST CO.; B.A. FINANCIAL, AFFILIATE OF BANK OF AMERICA; FIRST CHICAGO INVESTMENT CANADA LTD., AFFILIATE OF FIRST NATIONAL BANK OF CHICAGO, AND C.M.B. HOLDINGS LTD., AFFILIATE OF CHASE MANHATTAN BANK.

3. M. M. BUILDERS FUNDS REP SAID HIS FIRM'S CANADIAN OPERATIONS WERE TOO SMALL AND TOO SPECIALIZED FOR MARINE MIDLAND TO CONSIDER BECOMING CHARTERED BANK. HE THOUGHT HIS FIRM MIGHT APPLY FOR EXEMPTION TO PROPOSED REGULATION THAT FOREIGN FINANCIAL INTERESTS WHICH NOT BECOME BANKS WOULD NOT BE ALLOWED BORROW IN CANADIAN MARKET WITH GUARANTEE OF FOREIGN PARENT. WITHOUT SUCH GUARANTEE, HE SAID, CANADIAN INVESTORS WOULD NOT ACCEPT HIS COMPANY'S COMMERCIAL PAPER. HE SEEMED OPTIMISTIC THAT GOC WOULD BE RECEPITIVE TO EXEMPTION PROPOSAL. M. M. REP WAS SOLE U.S. FINANCIAL REP TO RAISE QUESTION OF CONSTITUTIONALITY OF GOC REGULATING FOREIGN FINANCIAL INTERESTS PRESENTLY CHARTERED UNDER PROVINCIAL LAW. (ALL U.S. FINANCIAL FIRMS CURRENTLY OPERATING IN TORONTO HAVE BEEN CHARTERED BY ONTARIO PROVINCE).

4. CONTINENTAL ILLINOIS REP SAID PROPOSED REGULATION OF FOREIGN BANKS IN CANADA SEEMED FAIR AND JUST PIECE OF LEGISLATION, AND HIS BANK WOULD PROBABLY APPLY FOR CHARTERED BANK STATUS. ALTHOUGH HE WOULD HAVE PREFERRED NO LEGISLATION AT ALL, HE UNDERSTOOD GOC NEED TO BRING FOREIGN OPERATIONS UNDER CONTROL OF FEDERAL GOVERNMENT. HE WAS SOMEWHAT CONCERNED ABOUT DIVESTITURE PROPOSAL WHICH WOULD REQUIRE FIRMS BECOMING BANKS DIVEST THEMSELVES OF NON-BANKING INTERESTS AND WONDERED WHETHER TWO-YEAR PERIOD WOULD BE RIGIDLY ENFORCED OR THERE WOULD BE "REASONABLE PERIOD TO DIVEST."

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5. MOST EBULLIENT OF U. S. REPS QUERIED WAS FROM B.A. FINANCIAL SERVICES. HE THOUGHT WHITE PAPER PROPOSALS ON FOREIGN BANKING REGULATION WERE SURPRISINGLY GOOD AND TAILORED EXACTLY TO WHAT BANK OF AMERICA NEEDED FOR ITS PROJECTED OPERATIONS IN CANADA. HE WAS PARTICULARLY IMPRESSED BY FACT THAT CANADA WAS PROPOSING TO OPEN UP ITS BANKING TO FOREIGN INTERESTS ("NO OTHER INDUSTRIALIZED COUNTRY IS NOW PREPARED TO

DO THE SAME"), AND B. OF A. WOULD DEFINITELY APPLY FOR CHARTERED BANK STATUS AND WOULD TAKE ADVANTAGE OF PROPOSAL ALLOWING FIVE BRANCHES OF SUBSIDIARY BY ESTABLISHING BRANCHES OF B. OF A., SUBSIDIARY IN MONTREAL, VANCOUVER AND PERHAPS IN PRAIRIE PROVINCES. HE HAD SOME QUESTION ABOUT PROPOSAL TO LIMIT FOREIGN BANKING TO 15 PERCENT OF COMMERCIAL LENDING IN CANADA, AND HE WOULD COME TO OTTAWA TO SEEK CLARIFICATION. B. OF A. WOULD BE ABLE TO OFFER SPECIALIZED EXPERTISE IN MORTGAGE LENDING, AND HE THOUGHT IN GENERAL FOREIGN BANKS WOULD BROADEN SCOPE OF CANADIAN BANKING SERVICES.

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6. FIRST CHICAGO REP WAS ALSO EXTRMELY UPBEAT REGARD-
ING WHITE PAPER PROPOSALS, BUT DURING COUSE OF CON-
VERSATION HE KEPT RETURNING AGAIN AND AGAIN TO 15
PERCENT LIMITATION ON FOREIGN BANKING. DEPENDING UPON
GOC INTERPRETATION OF WHAT CONSTITUTES COMMERCIAL
LENDING, OPERATIONS OF FOREIGN BANKS COULD BE SEVERELY
RESTRICTED OR FAIRLY EXPANSIONARY. IF GOC INTERPRETED
COMMERCIAL LENDING TOO NARROWLY (E.G., EXCLUDING LENDING
TO PROVINCES), THERE MIGHT BE RUSH OF FOREIGN BANKING
INTERESTS TO ESTABLISH THEMSELVES AS CHARTERED BANKS
WITH \$500 MILLION OF ASSETS, AND THIS COULD CAUSE

PROBLEMS IN MONEY MARKETS. HE EXPECTED COME TO OTTAWA IN NEXT FEW WEEKS TO TELL GOC OFFICIALS OF FIRST CHICAGO'S REACTION TO WHITE PAPER AND OF HIS COMPANY'S INTENTIONS, AND HE HOPED GOC WOULD CLARIFY 15 PERCENT RULE. HE SAID PROPOSED RESERVE REQUIREMENTS WERE NOT ONEROUS AND THAT FEDERAL RESERVE REGULATIONS AND HIS OWN BANK'S POLICIES WOULD BE MORE RESTRICTIVE. HE WONDERED ABOUT TIMING OF FIRST'S APPLICATION TO BECOME CHARTERED BANK (I.E., BEFORE OR AFTER NEW BANKING LEGISLATION IS PASSED), AND WHAT WOULD BE ATTITUDE OF FEDERAL RESERVE TO FIRST CHICAGO'S APPLICATION. HE THOUGHT FEDERAL RESERVE WOULD PROBABLY LIMITED OFFICIAL USE

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ACT QUICKLY ON BANK'S APPLICATION FOR ESTABLISHMENT OF SUBSIDIARY IN CANADA ONCE BANKING LEGISLATION PASSED HERE.

7. C.M.B. REP WAS ALSO OPTIMISTIC ABOUT HIS FIRM BECOMING CHARTERED BANK BUT HE HAD QUESTIONS REGARDING GOC INTERPRETATION OF NEW REGULATIONS ON SECURITY UNDERWRITING. (UNDER PROPOSED LEGISLATION BANKS WOULD NOT BE ALLOWED UNDERWRITE CORPORATE SECURITIES OR ACT AS AGENT IN PRIVATE PLACEMENT OF CORPORATE SECURITIES.) IN CERTAIN INSTANCES, HE MAINTAINED, A PLACEMENT MIGHT BE CONSIDERED A LOAN OPERATION RATHER THAN SECURITY UNDERWRITING. HE WAS MOST PESSIMISTIC OF U.S. BANK REPS REGARDING TREND OF CANADIAN ECONOMY AND GOC REGULATION THEREOF, BUT HE ADMITTED CANADIAN OPERATIONS OF CHASE WERE EXTREMELY PROFITABLE, THAT HIS FIRM'S LOAN PORTFOLIO WAS GROWING, AND THAT CHASE WOULD PROBABLY BECOME CHARTERED BANK. HE TOO WAS CONCERNED ABOUT "REASONABLE" PERIOD FOR DIVESTITURE OF NON-BANKING OPERATIONS WHEN (AND IF) CHASE BECAME CHARTERED BANK IN CANADA.

8. DURING CONVERSATIONS WITH ALL FIVE U.S. BANKING REPS THEY MENTIONED CITICORP'S OPERATIONS IN CANADA (24 PERCENT OF MERCENTILE BANK PLUS SEVERAL OTHER FINANCIAL HOLDINGS), AND THEY SAID THAT CITIZORP WOULD PROBABLY HAVE MOST DIFFICULTY OF ANY U.S. BANKING OPERATION HERE TO CONFORM TO PROPOSED CHANGES IN BANK ACT. DUE TO SCHEDULING DIFFICULTIES AND FACT THAT CITICORP REP HAD JUST RETURNED FROM VACATION AND PROBABLY NOT HAD OPPORTUNITY TO STUDY WHITE PAPER, EMBOFF WAS UNABLE TO SCHEDULE APPOINTMENT WITH HIM. HOWEVER, APPOINTMENT WITH REP SET FOR SEPTEMBER 13 WHEN HE WILL BE IN OTTAWA, AND EMBOFF WILL DISCUSS WITH HIM THEN CITICORP'S PROBABLE DIFFICULTIES WITH PROPOSED LEGISLATION.

9. U.S. BANKING REPS WERE IMPRESSED WITH RETAIL
OPERATIONS OF EXISTING CHARTERED BANKS AND MAINTAINED
THAT THEIR PROJECTED OPERATIONS, IF AND WHEN THEY
BECAME CHARTERED BANKS, WOULD BE IN WHOLESALE BANKING,
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CONCENTRATING ON SMALL AND MEDIUM-SIZED FIRMS. THEY
THOUGHT U.S. BANKS WERE MORE RECEPTIVE TO HIGHER
RISK VENTURES THAN CANADIAN CHARTERED BANKS AND THAT
U.S. BANKS COULD BRING TO CANADIAN BANKING SOME
NEEDED EXPERTISE AND EMPATHY FOR NEW VENTURES. THEY
THOUGHT ONE OF PRINCIPLE REASONS FOR ALLOWING FOREIGN
BANKS INTO CANADA NOW WAS FACT THAT CANADIAN BANKS
HAD GROWN TO SUCH A SIZE THAT THEY NEEDED NEW OPENINGS
IN OTHER COUNTRIES AND WERE HOPING FOR RECIPROCITY.

ASSUMING THAT RECIPROCITY PHRASE IN WHITE PAPER
("IN THE JURISDICTION OF THE PARENT BANK") REFERRED
TO STATE LAWS IN U.S. WHERE THEIR PARENTS WERE
LOCATED, U.S. BANK REPS SAW NO BARRIERS IN THIS
RESPECT TO THEIR BECOMING CHARTERED BANKS. ALTHOUGH
THEY WOULD HAVE PREFERRED THAT BRANCHES OF THEIR
BANKS BE ALLOWED, THEY FORESAW NO DIFFICULTY IN
ESTABLISHING SUBSIDIARIES. (B. OF A. REP ALSO
WELCOMED RULE THAT AT LEAST 50 PERCENT OF DIRECTORS
BE CANADIAN.) ALL REPS SEEMED PLEASED BY EMBASSY
INITIATIVE IN DISCUSSING WHITE PAPER; NONE SUGGESTED,
AFTER DELICATE PRODDING, THAT USG SHOULD INTERCEDE AT
THIS TIME WITH GOC ON THEIR BEHALF (BANK OF CANADA REP:
"US BANKS ARE BIG BOYS AND CAN TAKE CARE OF THEMSELVES");
AND, EXCEPT FOR M.M. REP., SEEMED TO FEEL THAT WHITE
PAPER PROPOSED TYPE OF FOREIGN BANKING LEGISLATION
THEY COULD LIVE WITH.

10. DISCUSSION WITH REPS FROM CANADIAN SECURITY
BORKERAGE FIRMS (R. A. DALY & CO. AND WOOD GUNDY)
QUICKLY DIVERTED FROM WHITE PAPER TO STATE OF
CANADIAN ECONOMY. (ONE FAIRLY OPTIMISTIC AND OTHER
EXTREMELY SO.) ONLY MAJOR CONCERN ABOUT PROPOSED
BANKING LEGISLATION WAS CENTERED ON NEW POWERS TO BE
GIVEN CABINET TO CHANGE RESERVE REQUIREMENTS ON
PARTICULAR CLASSES OF DEPOSITS. ALTHOUGH THEY DID
NOT THINK CABINET MIGHT "PLAY AROUND" WITH MONEY
SUPPLY BY USE OF THIS NEW POWER, IT WAS DEPARTURE
FROM HISTORICAL CANADIAN BANKING OPERATIONS. IN
GENERAL, THEY THOUGHT CHARTERED BANKS HAD BEEN WELL
TREATED BY WHITE PAPER IN VIEW OF PM TRUDEAU'S
ADVERSE COMMENTS ABOUT CANADIAN BANKS, AND BANKS HAD
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NOTHING TO FEAR FROM PROPOSED FOREIGN COMPETITION.

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